



Quarterly Review of Investment Strategy

Bernalillo County, NM



Chris DeBow, *Managing Director*

Sheila Duffy, *Director*

Bernalillo County Investment Committee

January 14, 2016

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Investment Priorities

Investment Priorities

Our investment objectives and philosophy are constant with all of our clients:

-  ***Safety is primary objective***
-  Transparency
-  Compliance
-  Liquidity
-  Yield

Investment Objectives

- Ladder investments to best match cash flows and cash needs – smooth ladder
- Comply with investment policy, including the liquidity requirement, which says that funds equal to 15% of budget should mature within 30 days -- \$79 million
- Maintain conservative portfolio parameters set-up after the County's liquidity crisis of 2013
- Stay abreast with current market conditions to best manage market and interest rate risk
- Maintain a high level of communication between departments to facilitate optimal investment strategy

Investment Strategy – Last Quarter

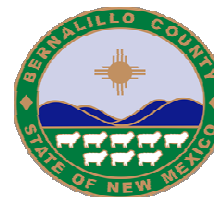
Fiscal Year 2016 – Second Quarter Strategy*

- The investment team will continue to monitor cash flow and put as much money to work out the curve (1-3 year area of the curve) as possible, moving the money out of bank deposits. The team will also monitor any moves in interest rates very closely, as the FOMC continues to consider a rate hike.
- The duration of the operating funds portfolio fell to less than one year after close to \$30 million dollars was transferred to the new bond proceeds portfolio in July. Therefore, the operating funds portfolio duration is now well short of the benchmark and there is opportunity to invest at the longer end of the ladder again, if funds are available for investment. At the time of this meeting, we are moving into the next tax collection period and an increase in cash balances. Beginning in December, the County will have a steady stream of monthly maturities, of about \$5 million per month. This also provides more opportunity to invest at the end of the ladder to keep that steady maturity stream up over the long term, which will benefit performance.
- Without a change in interest rates sufficient enough to change strategy, the County will maintain high bank balances to meet its policy driven liquidity requirements in the 0-18 month range. Therefore, collateral management and monitoring will remain key focuses for staff.
- The investment team for the County decided to build a smooth ladder portfolio for the bond proceeds to match the average draw on funds of \$1.5 million per month. As this is a brand new portfolio, the team will continue to monitor cash needs and revise investment strategy accordingly.

Review of Current Portfolio and Markets

Bernalillo County Operating Funds Portfolio – Dec 31, 2015

Report: Executive Summary
Account: BERNALILLO COUNTY TREASURER
As of: 12/31/2015



	Market Value + Accrued	% of Total	Book Yield
Summary of Investment Funds:			
US Treasury Securities	\$ 65,009,439.33	15.98%	0.446%
US Agency Securities	\$ 9,982,623.61	2.45%	1.067%
Cash - Wells Fargo MMF	\$ 10,102,238.33	2.48%	0.010%
Summary of Negotiated Bank Deposits:*			
Wells Fargo Savings	\$ 246,507,289.99	60.61%	0.214%
First National Bank Santa Fe	\$ 25,031,523.40	6.15%	0.255%
Bank of the West	\$ 50,060,523.65	<u>12.31%</u>	0.245%
Total Month-end Bank Balances	\$ 321,599,337.04	79.08%	0.222%
Total Investable Funds	\$ 406,693,638.31	100.00%	0.247%
Previous Month Total Investable Funds	\$ 286,121,058.43		0.265%

* Average Monthly Bank Deposit Balances (on which returns are calculated):

Wells Fargo Savings	\$ 235,036,016.72
First National Bank Santa Fe	\$ 25,026,381.03
Bank of the West	\$ 50,050,321.61
Total Average Bank Balances	\$ 310,112,719.36

No primary issue securities were purchased. Please see trading reports attached.

Compliance:

No compliance issues for funds managed by Public Trust Advisors.

Collateral compliance is attached separately, as it is checked by the Accounting Department of the Treasurer's Office.

Bernalillo County Operating Funds Portfolio – Dec 31, 2015



Portfolio Overview

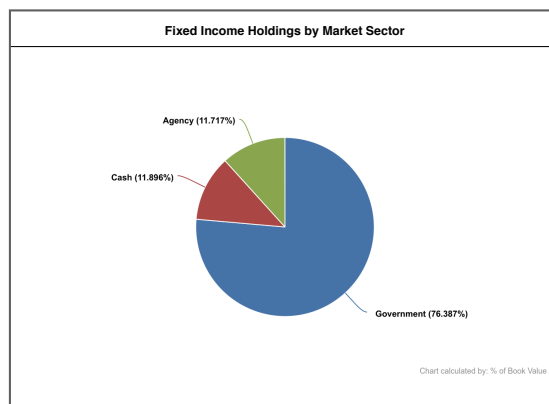
12/01/2015 - 12/31/2015

Bernalillo County Op Funds (40455)

Dated: 01/07/2016

Balance Sheet			
Book Value + Accrued			85,210,040.98
Net Unrealized Gain/Loss			-93,469.85
Market Value + Accrued			85,116,571.12

Index Comparison Summary			
Risk Metric	Portfolio	Index	Difference
Duration	0.672	0.934	-0.262
Yield	0.588	0.587	0.001
Years to Effective Maturity	0.677	0.937	-0.26
Years to Final Maturity	0.677	0.937	-0.26
Average Credit Rating	AAA	AAA	---



Cash and Fixed Income Summary	
Risk Metric	Value
Cash	22,269.85
MMFund	10,102,238.33
Fixed Income	74,992,062.94
Duration	0.672
Convexity	0.011
WAL	0.678
Years to Final Maturity	0.677
Years to Effective Maturity	0.677
Yield	0.588
Book Yield	0.475
Avg Credit Rating	AAA/Aaa/AAA

Index: BofA ML 1-Yr TBILL.

Bernalillo County Bond Proceeds Portfolio – Dec 31, 2015



Portfolio Overview

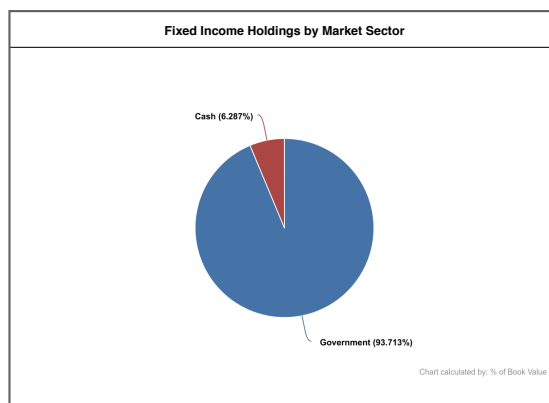
12/01/2015 - 12/31/2015

Bernalillo County Bond Proceed (52469)

Dated: 01/07/2016

Balance Sheet			
Book Value + Accrued			24,047,566.03
Net Unrealized Gain/Loss			-37,170.03
Market Value + Accrued			24,010,396.00

Index Comparison Summary			
Risk Metric	Portfolio	Index	Difference
Duration	0.636	0.934	-0.298
Yield	0.589	0.587	0.002
Years to Effective Maturity	0.639	0.937	-0.298
Years to Final Maturity	0.639	0.937	-0.298
Average Credit Rating	AAA	AAA	---

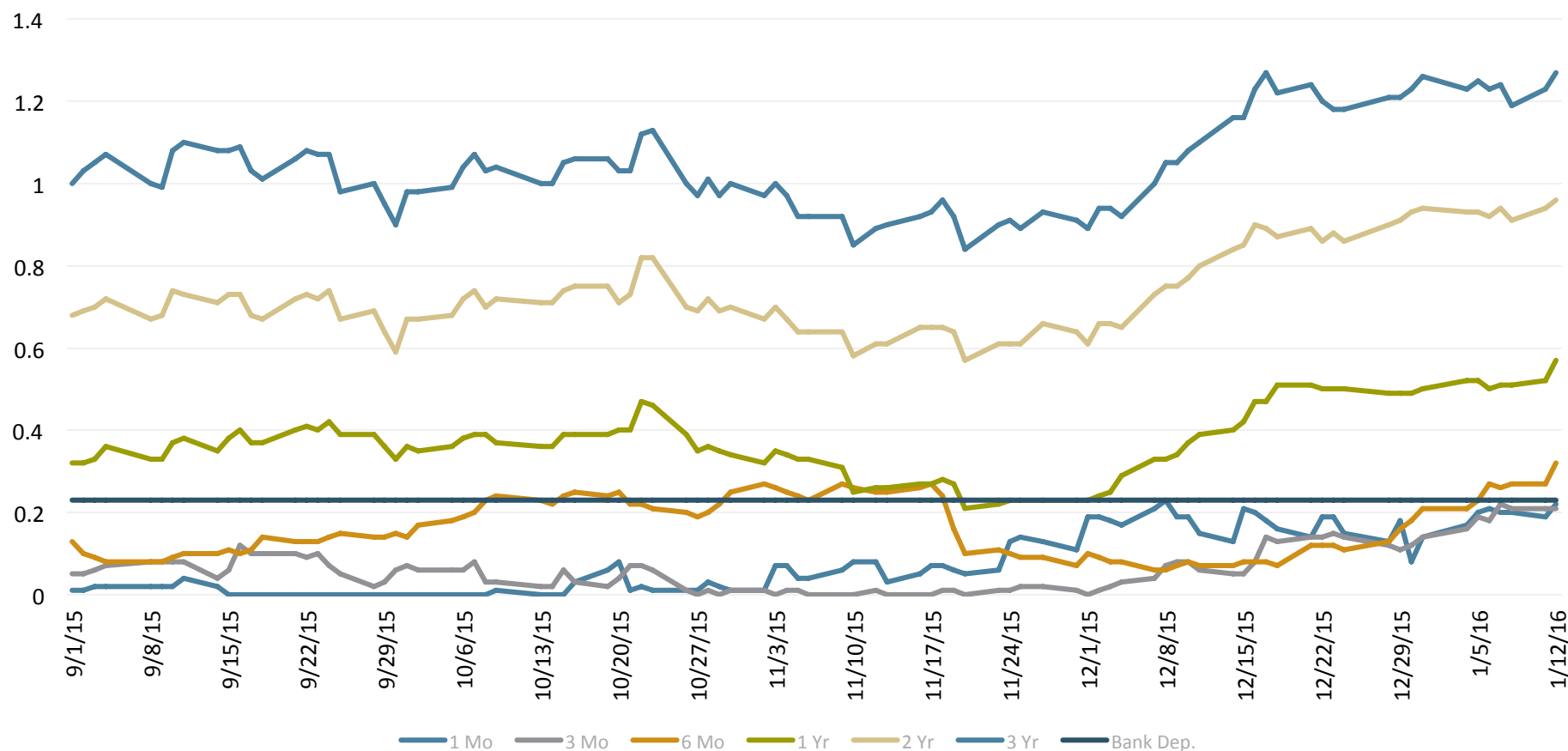


Cash and Fixed Income Summary	
Risk Metric	Value
Cash	10,319.81
MMFund	1,500,000.59
Fixed Income	22,500,075.60
Duration	0.636
Convexity	0.009
WAL	0.64
Years to Final Maturity	0.639
Years to Effective Maturity	0.639
Yield	0.589
Book Yield	0.38
Avg Credit Rating	AAA/Aaa/AAA

Index: BoFA ML 1-Yr TBILL

US Treasury Rates

US Treasury Rates
9/1/16 to 1/12/16



Source: Treasury yields - United State Treasury:

<http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>.

Bank Rate Assumption = 0.23%.

US Treasury Interest Rates – Change to Date Since Sept 1, 2015

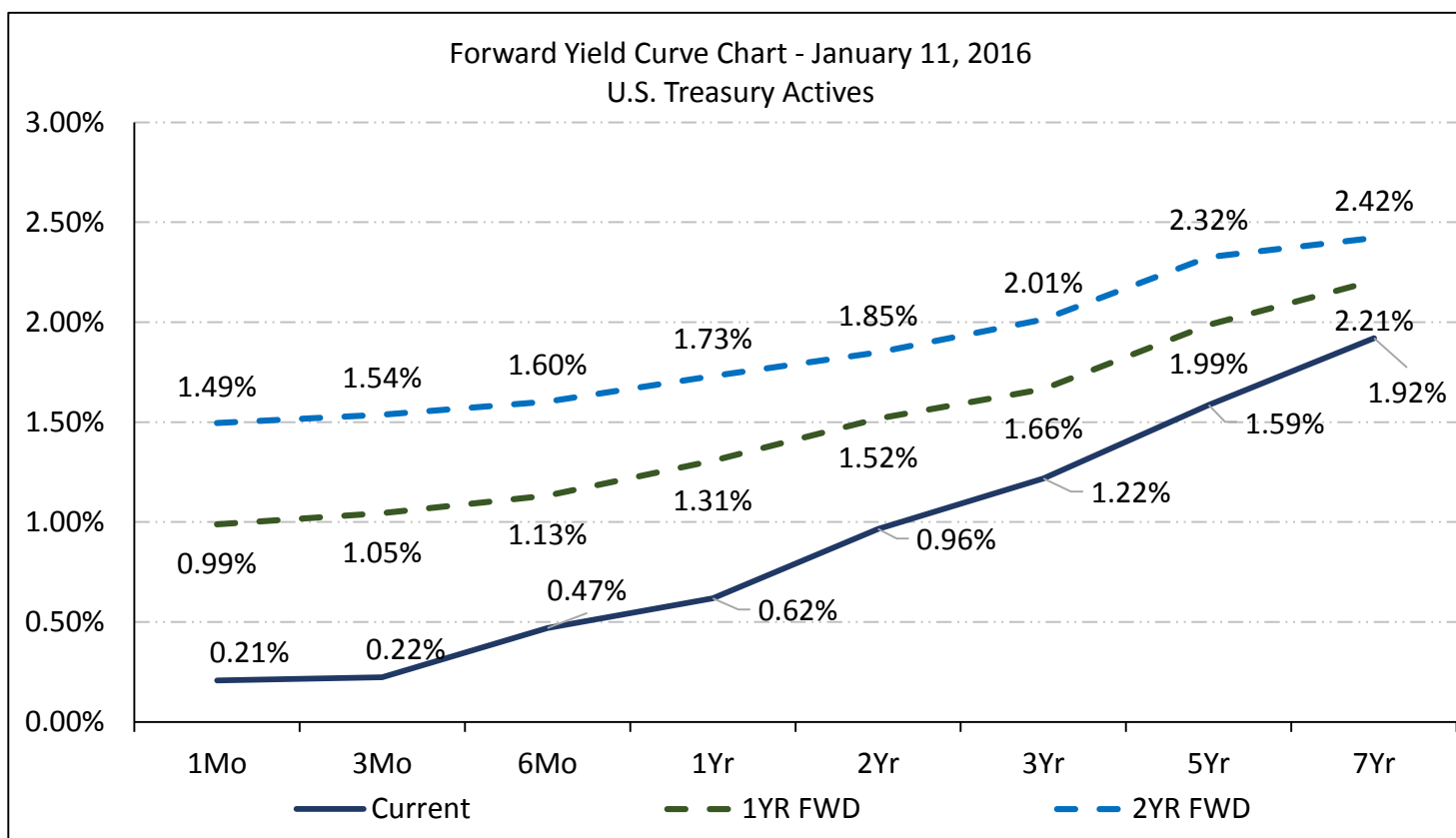
Treasury Sec.	1-Sep-15	12-Dec-16	Change
1 mon	0.01%	0.22%	0.21%
3 mon	0.03%	0.21%	0.18%
6 mon	0.26%	0.47%	0.21%
1 year	0.39%	0.62%	0.23%
2 year	0.70%	0.93%	0.23%
3 year	1.03%	1.18%	0.15%

Source: Treasury yields - United State Treasury:

[http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield.](http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield)

Forward Yield Curves Indicate Rising Rates

- Current economic information, expectations of additional Federal Funds rate increases and the expectation of an increase in inflation during 2016 and beyond are pushing forward yield curves upward.
- Yields are projected to experience a larger increase which would result in a flatter yield curve.



Source: Bloomberg – The charts above represent data available from Bloomberg and are intended for informational purposes only and not a recommendation. Past performance is not indicative of future performance.

Investment Strategy – Coming Quarter

Investment Strategy – Operating Funds

- The upward shift in interest rates at the front end of the yield curve introduces an opportunity to move investment dollars out of bank deposits and into US Treasury and Agency securities for a better yield.
- Currently, the duration of the Operating Funds portfolio that is invested is well short of the benchmark, while the yield is in line with the benchmark at 0.588%. When bank deposits are included in the portfolio calculation, the yield on the portfolio drops to 0.247%.
- The County cash flow projection shows an estimated \$77 million of taxes collected that will not be distributed to other taxing entities. Of that \$77 million, \$5 million has been invested in a two-year Agency bullet security at a book yield of 1.116%.
- The Investment Working Group will continue to review opportunities to invest the cash, build the investment ladder and improve portfolio performance.
- Public Trust will execute on decisions made by the group after receiving the two signatures required for any trade, per the investment procedures.

Investment Strategy – Bond Proceeds

- ❏ The Bernalillo County Bond Proceeds portfolio was created as of July 1, 2015.
- ❏ This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- ❏ The portfolio is invested in a smooth ladder of securities with \$1.5 million maturing each month to fund project draws.
- ❏ A new cash flow projection has been created by the Accounting and Budget office, specifically for the Bond Proceeds portfolio.
- ❏ The Investment Working Group continues to assess the optimal monthly maturity level to best meet the needs of the County.
- ❏ Currently, none of the funds that have matured are being reinvested, as they are needed for project expenditures and land acquisition costs.

Registered Investment Advisor – Standard of Care

Per Public Trust Advisors' current scope of work for Bernalillo County, we are required to prepare a quarterly investment review and present it to the Investment Committee and the Board of Finance. As a Registered Investment Advisor (RIA) under the Securities Exchange Act of 1940, we act in a fiduciary capacity for the County.

A fiduciary relationship is generally viewed as the highest standard of customer care available under law. Fiduciary duty includes both a duty of care and a duty of loyalty. Collectively, and generally speaking, these duties require a fiduciary to act in the best interest of the customer, and to provide full and fair disclosure of material facts and conflicts of interest.

~ Securities Industry and Financial Markets Association (SIFMA)

SIFMA Fiduciary Standard Resource Center, <https://www.sifma.org/issues/private-client/fiduciary-standard/overview/>

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The data in this presentation is unaudited.

Performance comparisons will be affected by changes in interest rates. Investment returns fluctuate due to changes in market conditions. Investment involves risk, including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. Past performance is not an indicator of future performance or results. Any financial and/or investment decision may incur losses.

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